



Czech, CEE And Global Economy

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Prague

May 30, 2019

Outline

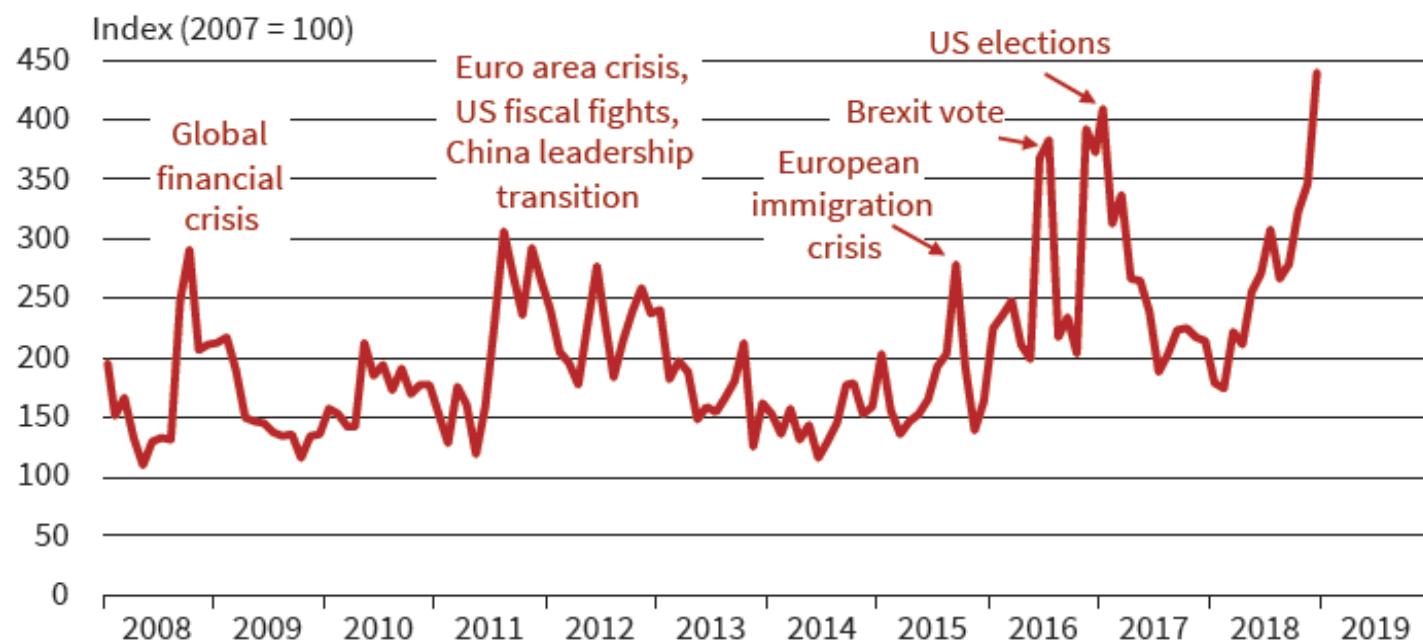
1. Global Economy
 - a. Political uncertainty
 - b. Position on the cycle
 - c. Central banks and their policies
 - d. EU after elections
2. CEE Common features
3. Czech economy

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Political uncertainty on a record levels

Global Economic Policy Uncertainty Index



Global Economic Policy Uncertainty (EPU) is calculated as the GDP-weighted average of monthly EPU index values for the United States, Canada, Brazil, Chile, the United Kingdom, Germany, Italy, Spain, France, Netherlands, Russia, India, China, South Korea, Japan, Ireland and Australia using GDP data in current prices from the IMF World Economic Outlook Database.

Source: Baker et al. (2016), www.policyuncertainty.com; last accessed on 3 February 2019.

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Index created out of 3 components (Baker et al.):

- ✓ Intensity of mentioning of uncertainty in media
- ✓ Share of tax laws expiring
- ✓ Relative mistakes of economic forecasts

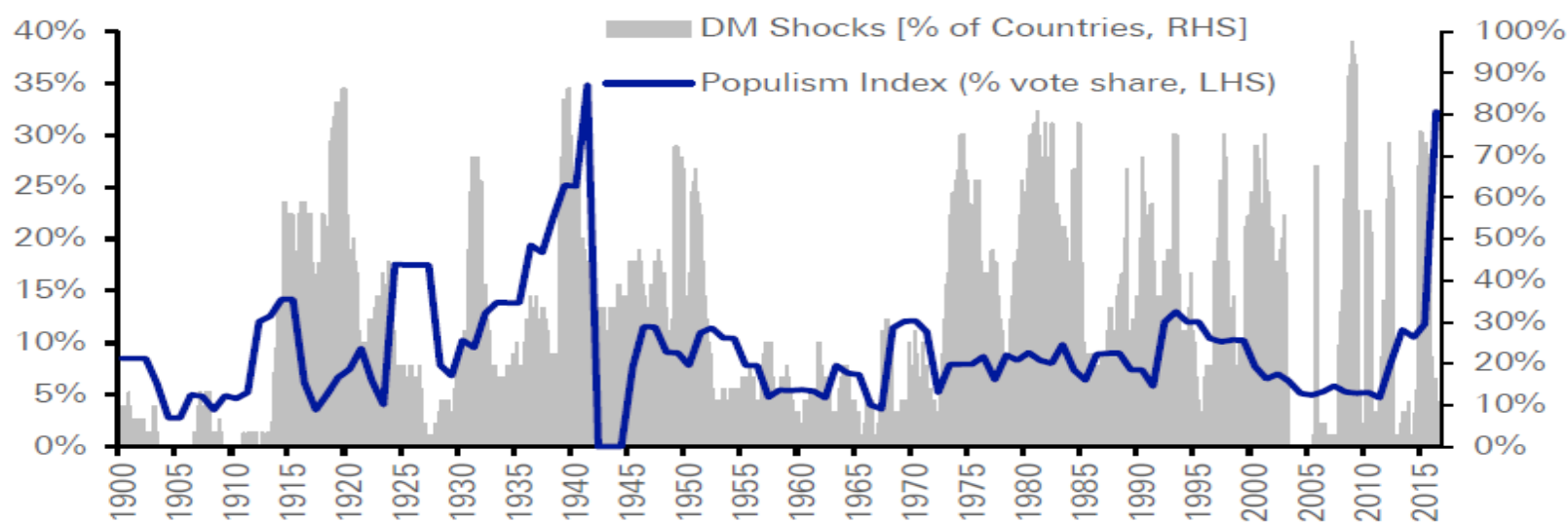
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But populism mostly follows, not causes, the financial crises

Figure 56: Populism index (% of vote across key countries, population weighted, LHS) and DM Financial Crises (RHS)

Source: Deutsche Bank



Source: Deutsche Bank, Author's calculations. Data collected from G7 countries (ex Canada but including Spain)

Notes:

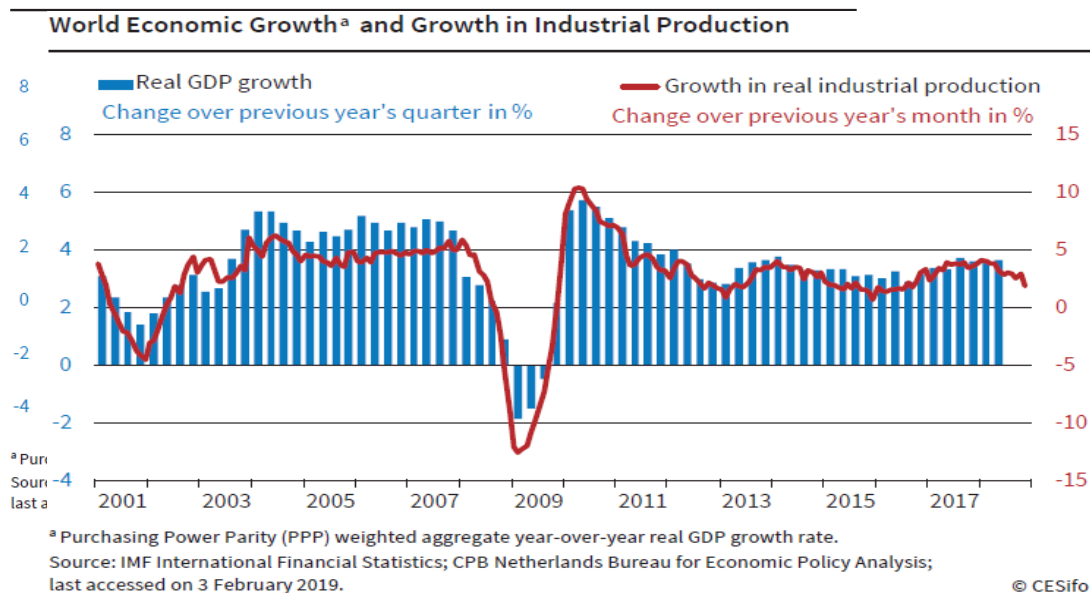
1. There is no German Election data between 1938 and 1949 as there was a dissolution of parliament after the Nazi party banned all other parties until the end of the war.
2. There is no Italian Election data between 1924 and 1946 as no democratic elections took place after Benito Mussolini banned other parties from taking part in elections.
3. There is no Spanish Election data between 1936 and 1977 due to the ascension of Franco to power as a Military Dictator until a Spanish Republic was re-established. There was also a lack of available data on the 1967/1971 general elections.

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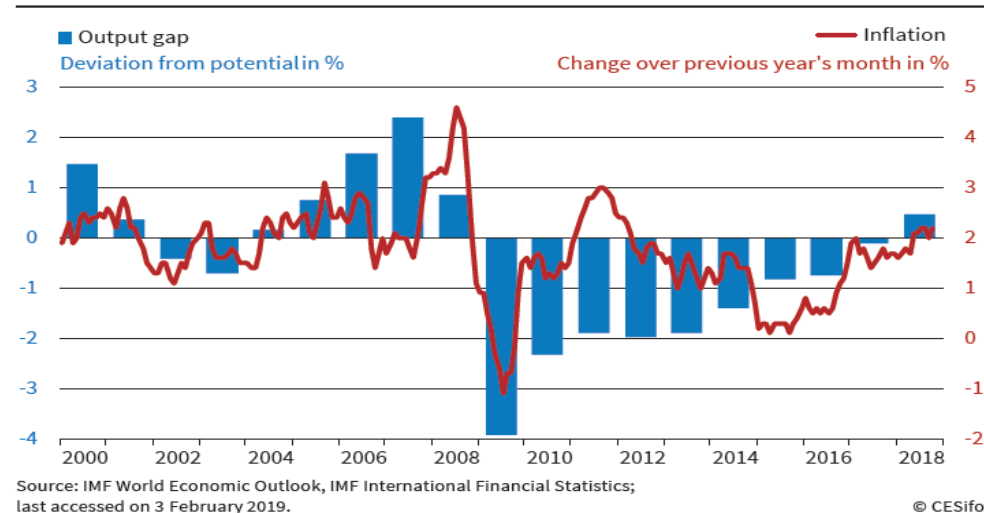
Where is the world economy on the cycle?

World Economic Growth^a and Growth in Industrial Production



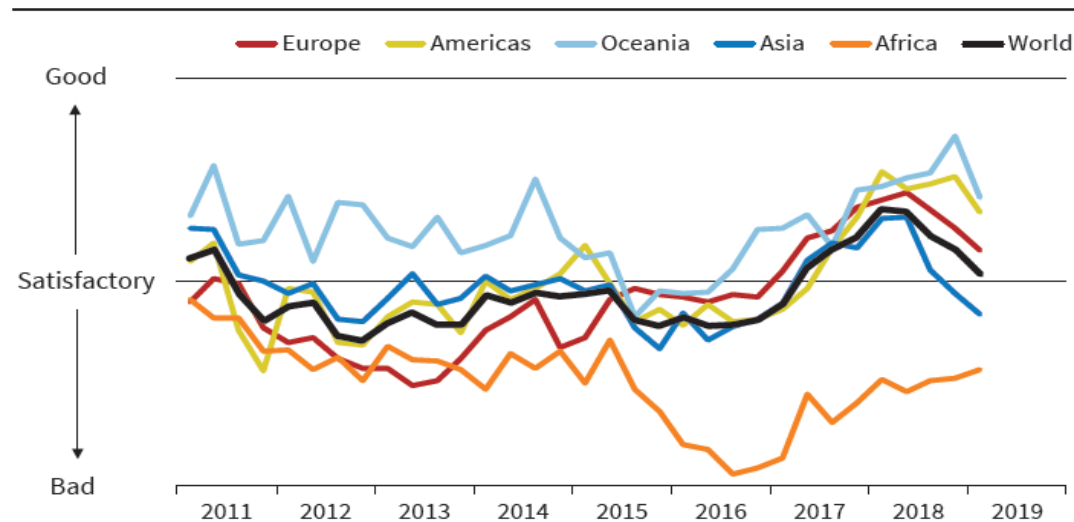
After the Great Recession, *i.e.* the worst crises of after war capitalism the economic growth is only mildly above potential.

Output Gap and Inflation in Advanced Economies



Neither sentiment nor growth prospects are tragic

ifo World Economic Survey
Economic Situation



Source: ifo World Economic Survey I/2019.

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Global growth outlook (real GDP growth in %)

	2017	2018	2019f	2020f	2021f	2022f
Global Economy	3,6	3,6	3,1	3,2	3,2	3,2
Advanced Countries	2,3	2,2	1,7	1,5	1,5	1,6
US	2,2	2,9	2,3	1,6	1,4	1,6
Eurozone	2,5	1,8	1,0	1,3	1,3	1,5
Germany	2,5	1,5	0,7	1,3	1,3	1,2
Emerging Markets	4,9	4,8	4,5	4,9	4,9	4,8

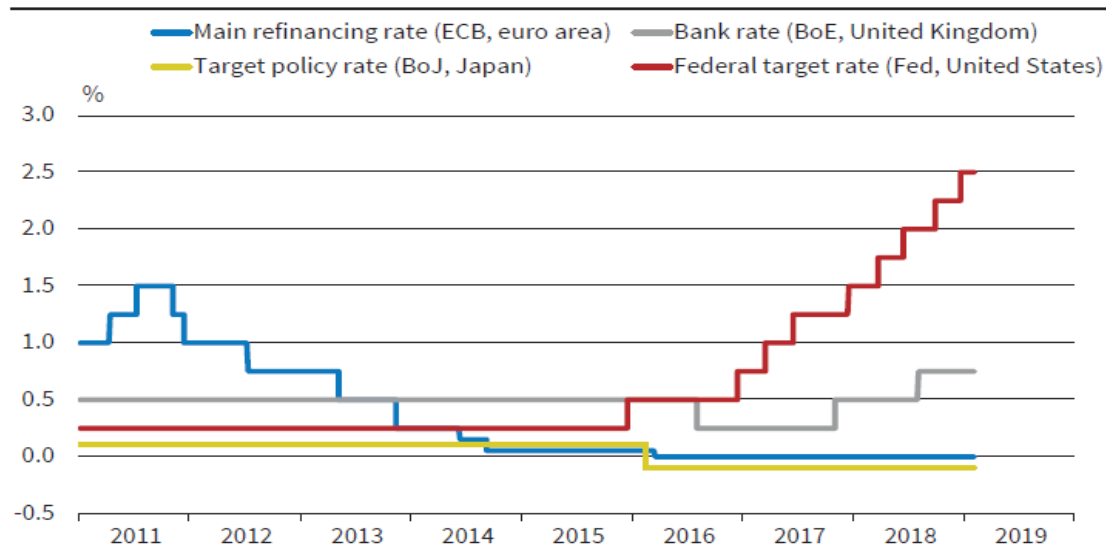
Source: Generali Investments Europe, Generali Investments CEE

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Normalisation of some CB policies lifts the rates and stops growth of their balance sheets

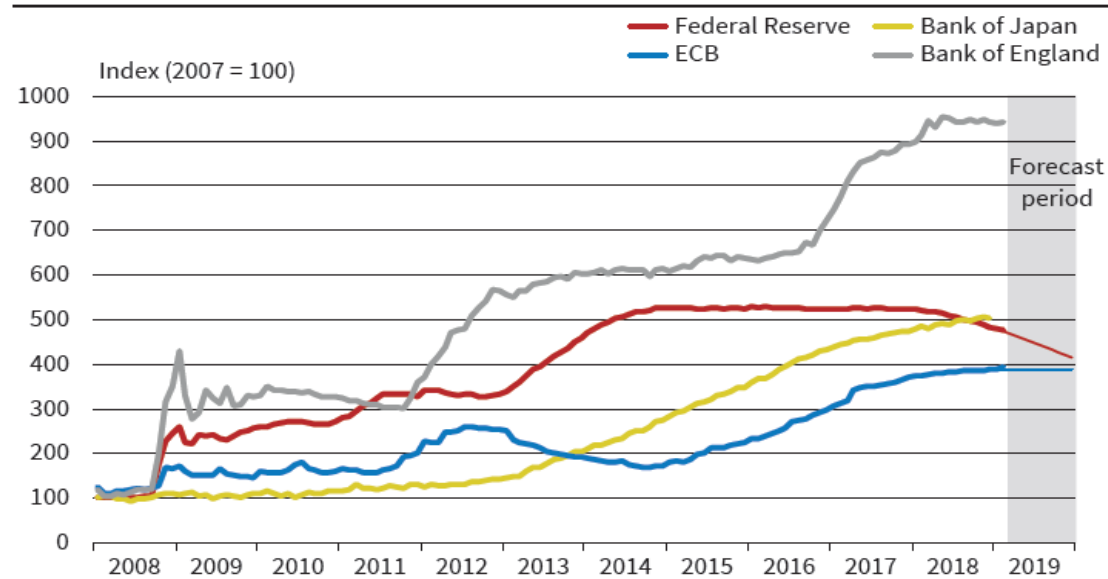
Central Bank Interest Rates



Source: European Central Bank; Federal Reserve Bank of St. Louis; Bank of England; Bank of Japan; last accessed on 3 February 2019.

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Balance Sheets Sizes of Major Central Banks



Source: Federal Reserve; Bank of Japan; European Central Bank; Bank of England; last accessed on 3 February 2019; EEAG calculations and forecast.

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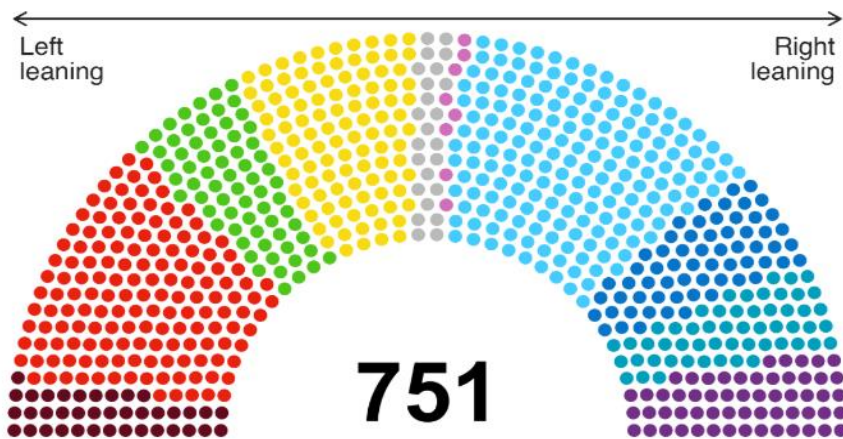
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EU elections – center right and social dems lost majority, right wing and populists gained less than feared/expected

EU elections

Seats by party group

- Left (GUE/NGL): 38
- Socialists and Democrats (S&D): 153
- Greens (G/EFA): 69
- Liberals (ALDE): 105
- Others: 24
- Independent MEPs: 8
- Centre-right (EPP): 179
- Conservatives (ECR): 63
- Populists (EFD): 54
- Right-wing nationalists (ENF): 58



Combination of provisional, projected and final results as of 12:17. Source: EP **BBC**

Share of seats: 0% <10% 10-20% 20-30% >30%

Right-wing nationalists (ENF): 58 seats



Populists (EFD): 54 seats



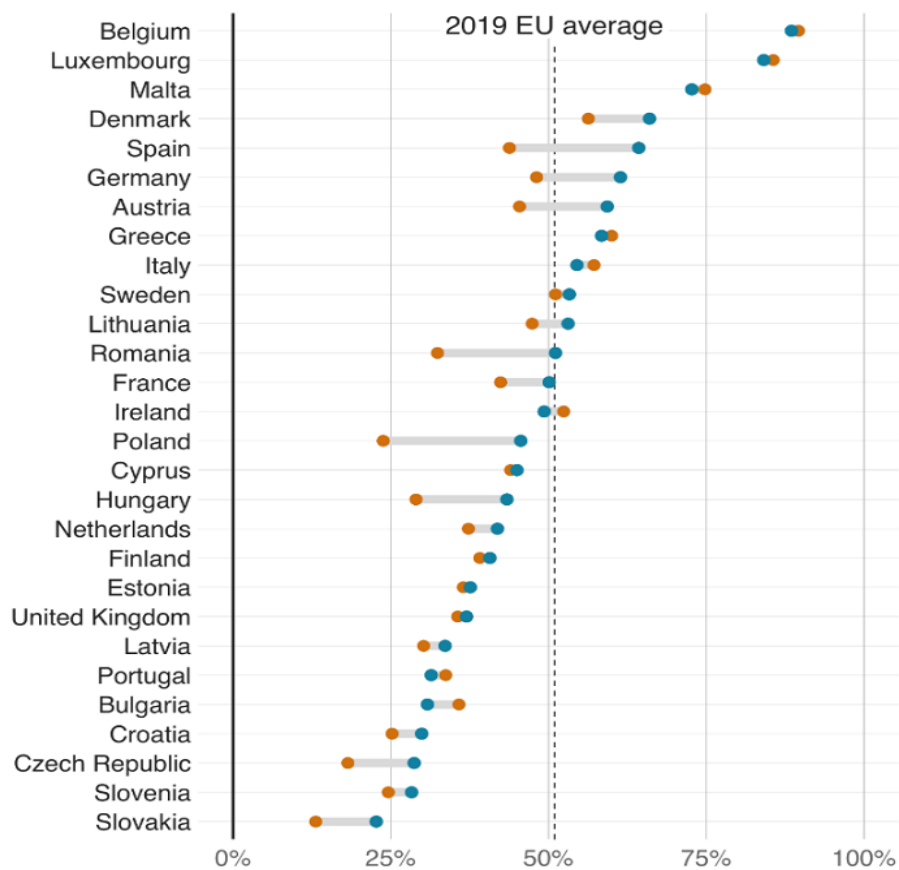
Source: EP. N.B. Combination of provisional, projected and final results **BBC**

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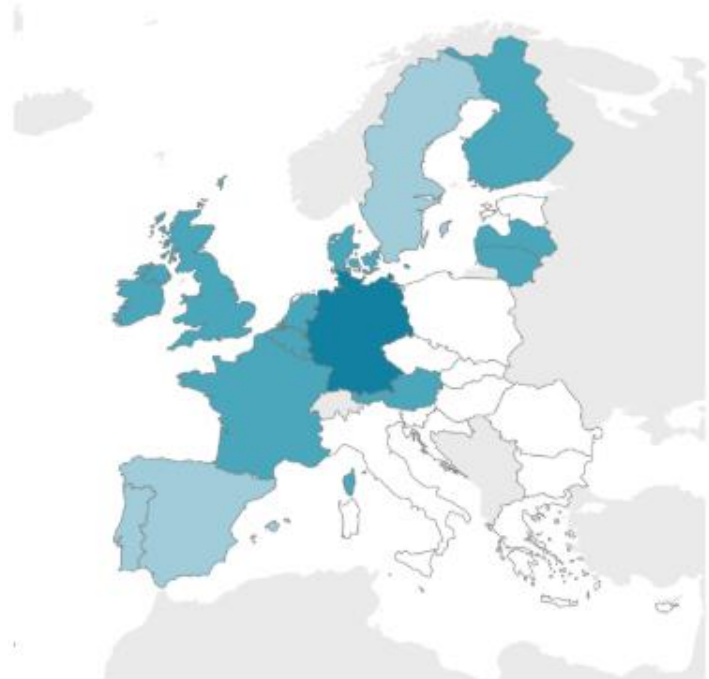
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EU elections - wide rift between „old“ and „new“ EU

Turnout by country in 2014 and 2019



Greens (EFA):
69 seats



Share of seats: 0% <10% 10-20% 20-30% >30%

Turnout below EU average in 9 out of 11 „new“ EU states

Greens uplifted and significant in the most of all EU states but didn't score at all in the „new“ EU

Source: European Parliament



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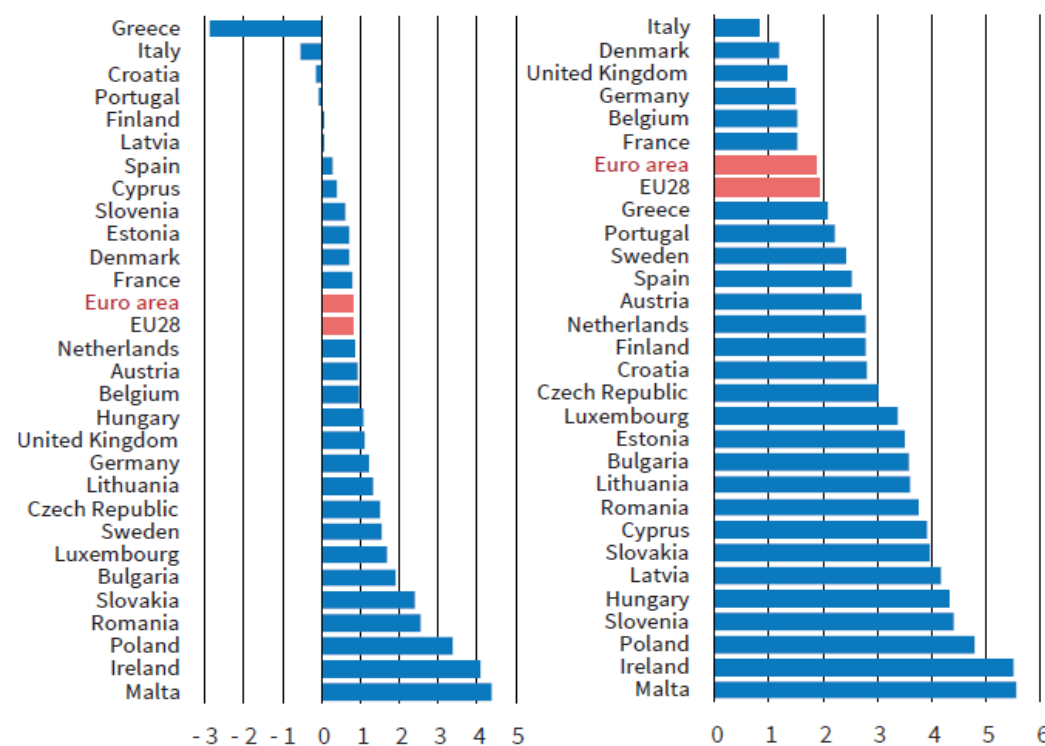
CEE common features

- Way lot „better“ Great recession, Poland even did not experience any fall of output, only Slovenia, Croatia and Estonia below EU average
- Low unemployment and growth of wages, lack of labor
- Export oriented
- With possible exception of Romania, relatively conservative fiscal policies and reasonable fiscal outlook
- On average lower level of gov't debt

Economic Growth in EU Member Countries

Average real GDP growth, 2007-2017

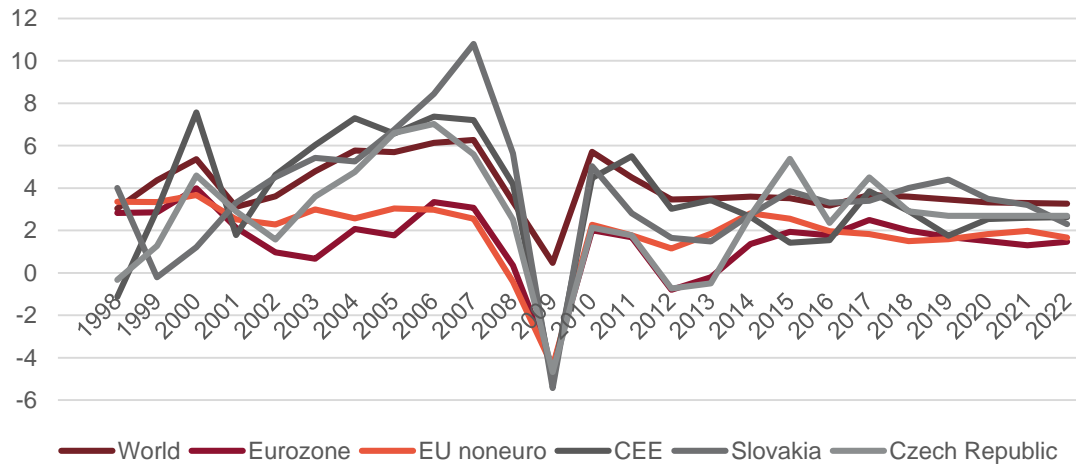
Real GDP growth, 2018



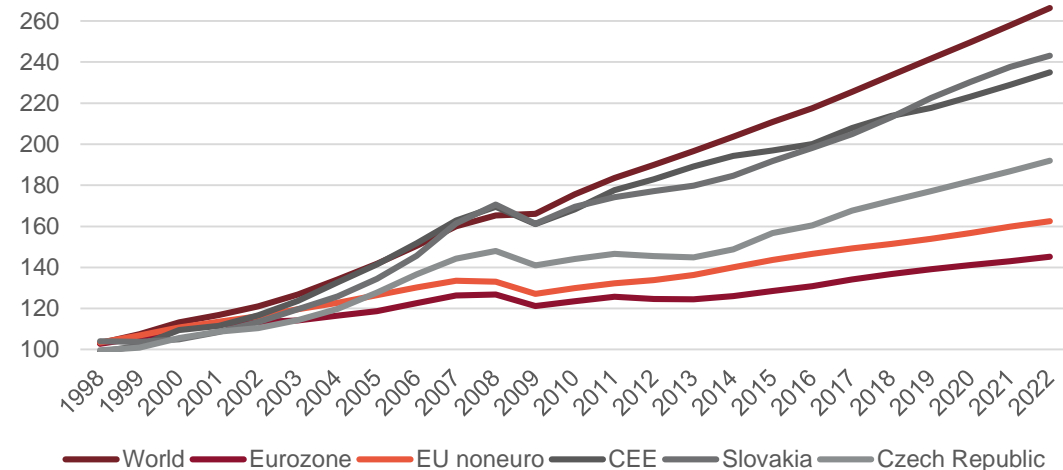
Source: Eurostat; last accessed on 3 February 2019; 2018 and 2019: EEAG forecast.

Long-term growth in Czech and Slovak republics – dependent on the world economy, faster than in „old“ EU

Real GDP growth 1998-2019 in %

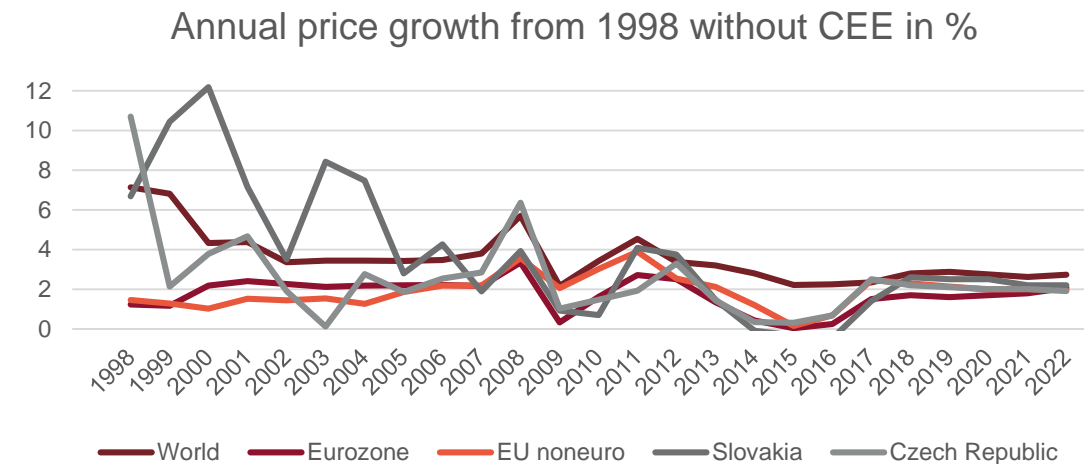
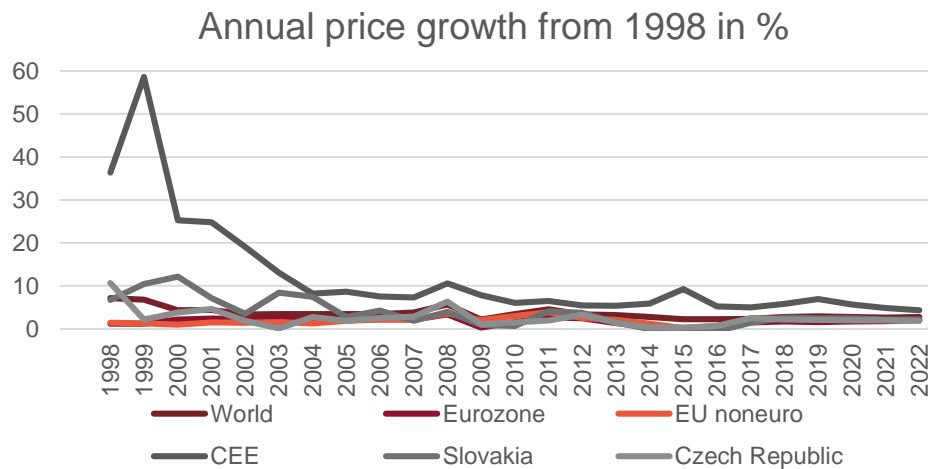


Cumulated real GDP growth from 1998 in %



- Not surprisingly, high openness of the Czech economy results in high correlation of its growth with the growth of the world economy. The real surprise is the low correlation of the Slovak economy with both the world and eurozone ones.
- Interestingly enough both Czech and Slovak economies are more correlated with the world economy than the eurozone one. But the difference is not significant.
- And also more correlated with CEE economy than eurozone one.
- Czech and Slovak economies still insignificantly more correlated together than with eurozone.

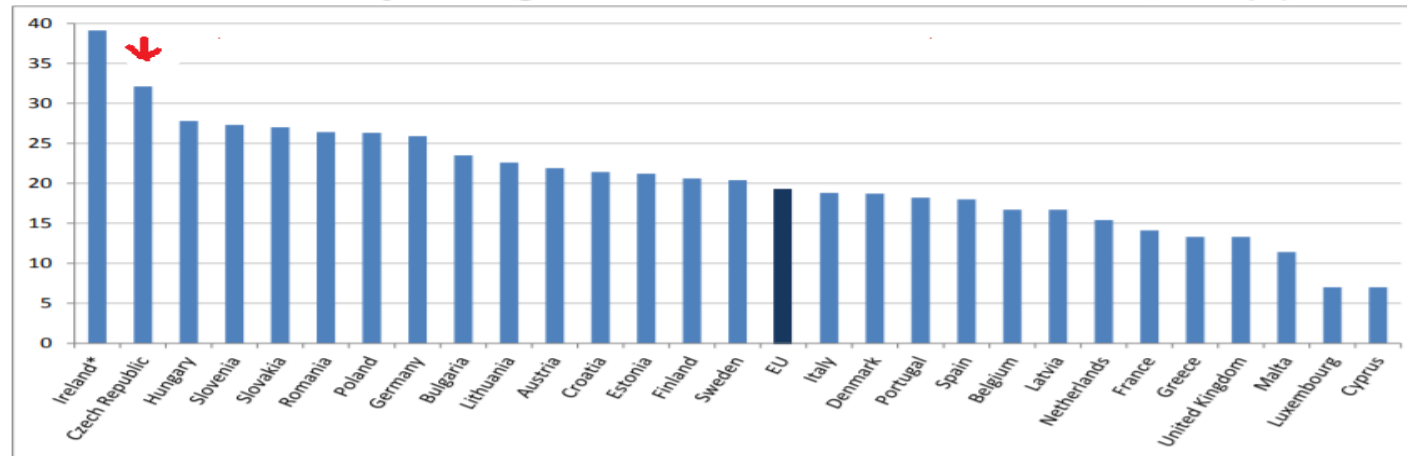
Inflation in two decades – Stable prices in the Czech Republic from the beginning of the millenium



- High inflation in CEE (ex Soviet Union and Balkan) overshadows inflation in CE
- During last 20 years prices in core EU grew 1,5 times, in the Czech Republic 1,7 times, in Slovakia 2,2 times, in the CEE twelve times. Our price growth is comparable with core EU from the beginning of this millenium.
- From 2000 is our inflation highly corrlated both with the world one and, slightly less, with the inflation in eurozone. On the other hand the correlation with CEE is rather low.
- Inflation in Slovakia is from 2000 also highly correlated with the world and eurozone ones, but the correlatioon is slightly higher in case of eurozone.
- The correlation between our and Slovak prize developments is low.

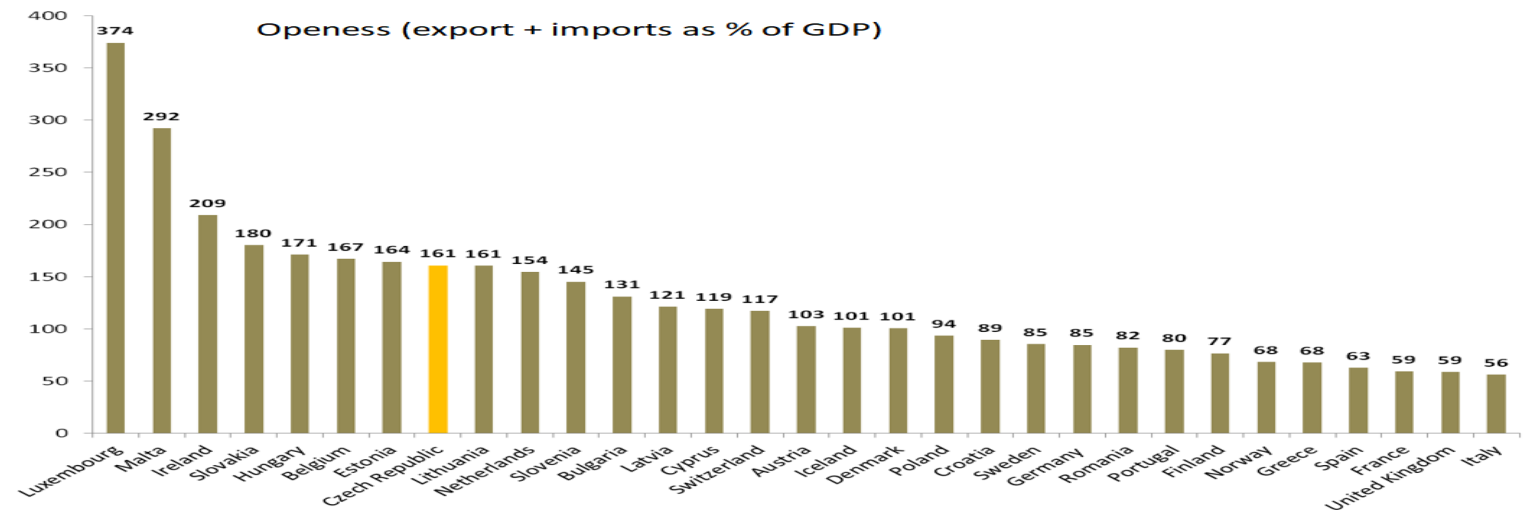
Long-term features of the Czech economy

Share of industry in total gross value added in the EU Member States, 2015 (%)



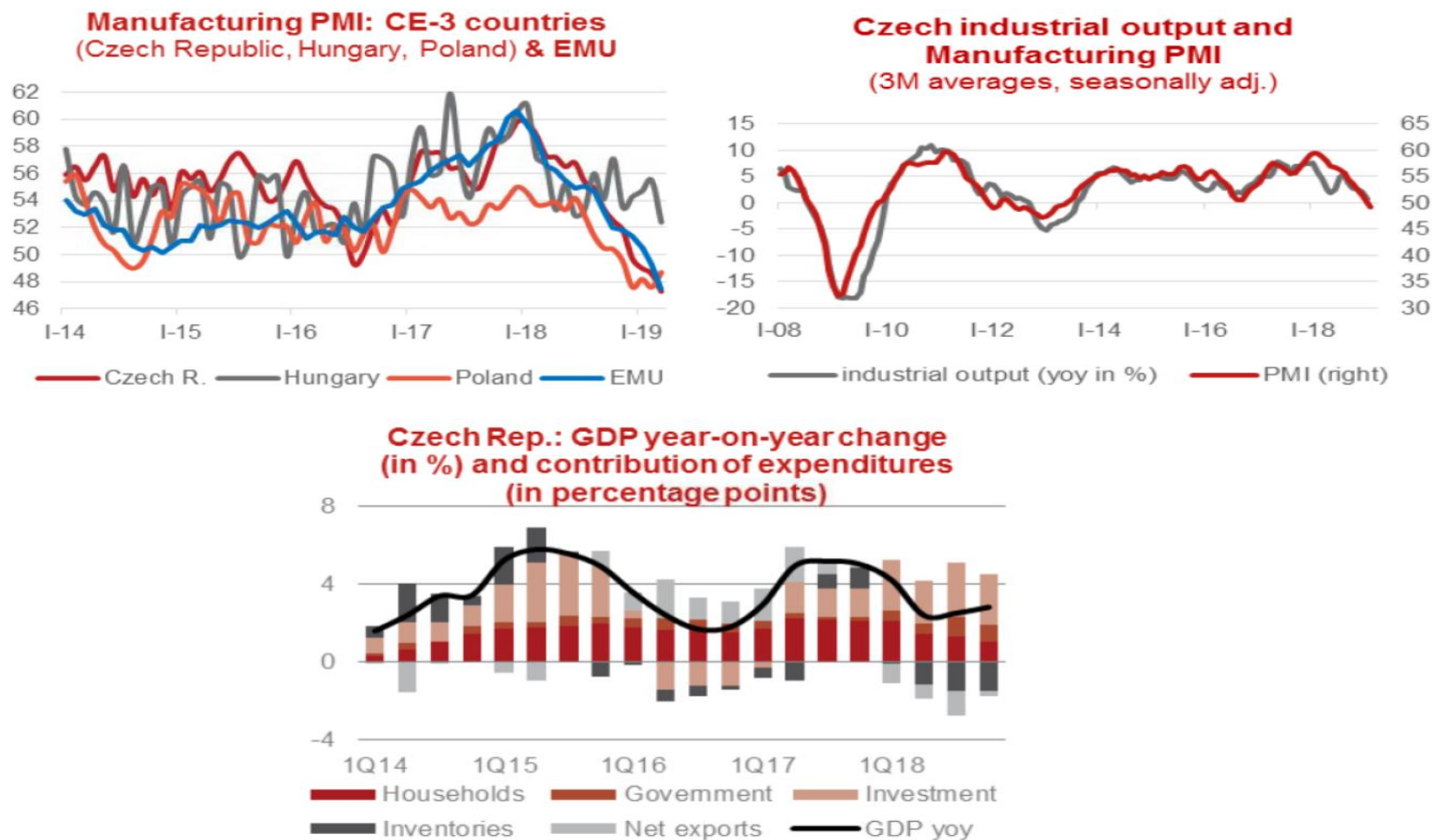
* See country note

Openess (export + imports as % of GDP)



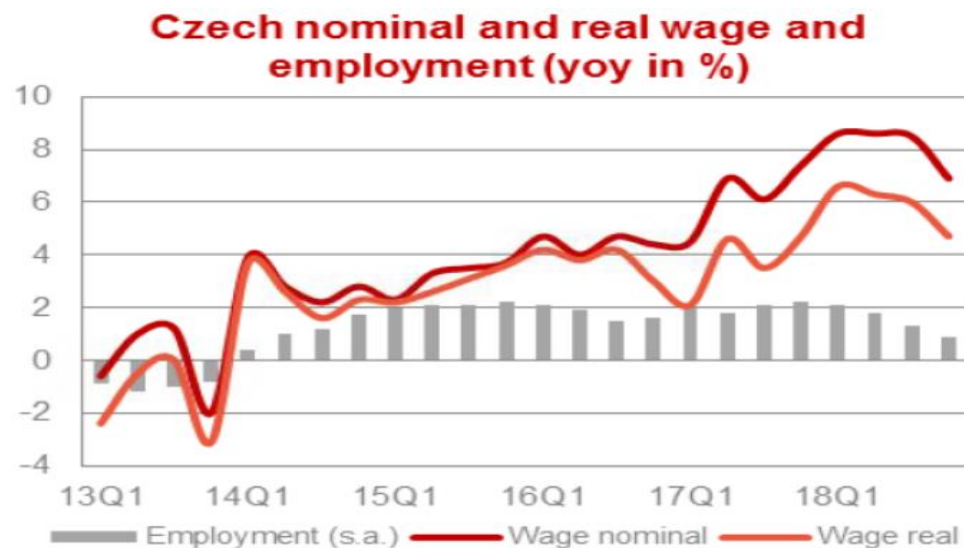
Very high openness and extremely high share of industry on GDP

Czech And CEE Economies Not Immune



Our growth has been based on robust domestic factors already.

Czech Consumer Has Quite A Reason To Stay Happy And It Shows



Deflation and/or contraction is a distant threat.

Czech Crown Remarkably Stable And Slowly Appreciating



Czech republic

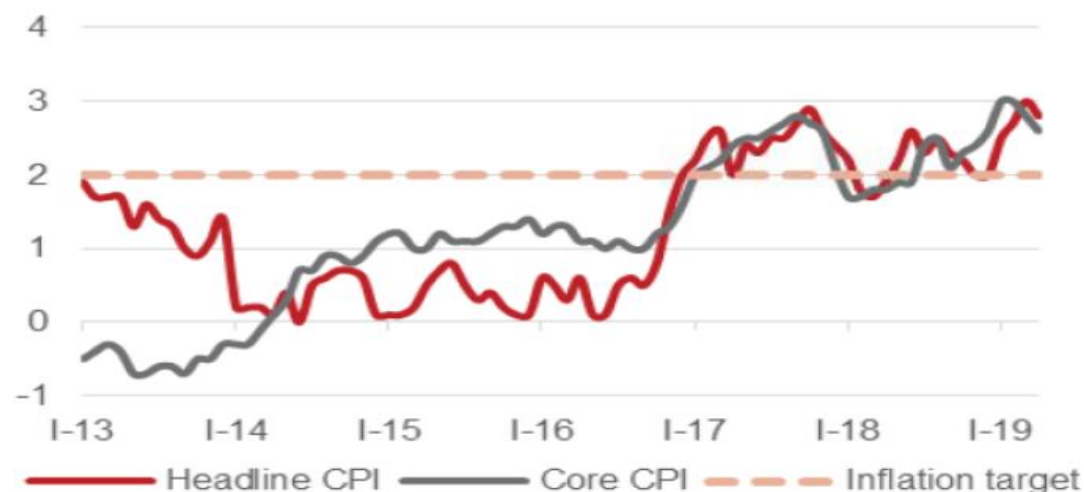
Gov't majority unchanged

Economy – risks stemming from global trade tensions, but the lowest unemployment in OECD keeps consumers happy as wages are growing, weaker investments

Gov't willing to introduce the sectoral taxes

Weaker than expected crown may cause CNB to hike to 2,25 in 2019

Czech CPI inflation (yoy in %)



Main Forecasts	2016	2017	2018	2019f	2020f
Real GDP growth ¹⁾	2,4	4,5	2,9	2,2	2,2
Inflation ²⁾	0,7	2,5	2,1	2,5	2,1
CNB repo rate ³⁾	0,05	0,50	1,75	2,00	2,25
Current account ⁴⁾	1,6	1,7	0,3	0,6	0,4
Budget deficit ⁴⁾	0,7	1,6	0,9	0,3	-0,2
General government debt ⁴⁾	36,8	34,7	32,7	32,0	31,5
EURCZK ²⁾	27,03	26,33	25,64	25,48	24,60

1) annual % changes 2) yearly average, 3) year-end level, 4) in terms of GDP

Source: GI CEE

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One Pleasant Face To End With!



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